

**State Employee Benefits Committee**  
**March 28, 2011, 2:00 p.m.**  
**Tatnall Building, Room 112**  
**Dover, Delaware**

The State Employee Benefits Committee met on March 28, 2011 at the Tatnall Building, Room 112, Dover, Delaware. The following Committee members and guests were present:

Ann Visalli, Director, OMB  
Brenda Lakeman, Director, OMB, SBO  
Faith Rentz, Deputy Director, OMB, SBO  
Mike Morfe, Aon – Hewitt Consultant  
Vicki Ford, OMB  
Casey Oravez, OMB  
Aaron Schrader, OMB, SBO  
Ann Skeans, OMB, SBO  
Mary Thuresson, OMB, SBO  
Andrew Kerber, DOJ  
Russ Larson, Controller General  
Tom Cook, Secretary of Finance  
Henry Smith, DHSS  
Chip Flowers, Treasurer (via phone)  
Brian Boyle, Treasurer's Office  
Barb Bennett, Treasurer's Office  
Carolyn Berger, Justice, Supreme Court  
Kim Vincent, Pension Office  
Kelly Callahan, Treasurer's Office  
Jennifer Vaughn, Department of Insurance  
Cynthia Diaz, PHRST  
Terry Mullaney, PHRST  
Rebecca Steele, OMB, BDPA

Pat Griffin, SEBAC, DOJ  
Mary Cooke, DOE  
Drew Brancati, Blue Cross Blue Shield DE  
Faith Joslyn, Blue Cross Blue Shield DE  
Jay Rausch, Dominion Dental  
Mark Wermes, Medco  
David Arciszewski, Medco  
Kim Hawkins, City of Dover  
Lisa R. Carmean, City of Milford  
Chris Ulrich, U of D  
Sandy Richards, AFSCME  
Vincent McCann, AFSCME  
Hugh Ferguson, DRSPA  
Mike North, Aetna  
Julie Caynor, Aetna  
Joe Morocco, HMS  
James Harrison, DSEA - R  
Jim Testerman, DSEA-R  
Rich Phillips, DSEA-R  
Tim Barchak, DSEA  
Judy Anderson, DSEA  
Dave Leiter, DHSS

Agenda Items Discussed:

**Introductions/Sign In**

Ms. Visalli called the meeting to order at 2:00 p.m. Introductions around the room followed.

**Approval of Minutes**

Ms. Visalli gave time to review the minutes from the March 14, 2011 SEBC meeting and then asked for a motion to approve. Controller General Larson made the motion and Mr. Smith seconded the motion. Upon unanimous voice vote the minutes were approved.

**Directors Report – Brenda Lakeman**

This morning the second request for reimbursement for the Early Retiree Reimbursement Program (ERRP) was submitted for the first quarter of Fiscal Year (FY) 11, in the amount of \$3.3 million (M). It should be received within the next 30 days. That will be added to the \$1.4M from FY10.

Ms. Visalli explained that to give the committee an update on changes to health care and pension benefits, they are putting together a chart and a frequently asked questions sheet to go with the legislation being drafted. This information will be distributed to the SEBC once finalized.

Last year the administration proposed changes to health and pension benefits for new employees. The changes were not introduced or moved through the legislature. Discussion continued on the proposed changes this year. The working group included members of the union coalition and representatives from each of the four caucuses of the General Assembly; Brenda Lakeman, Faith Rentz, Kim Vincent, Dave Craik, herself as well as representation from the Governor's office. Mike Morfe did a lot of work. Many hours were spent reviewing options. They now believe they have a very good proposal representing the consensus of the group. Only new employees will be affected by the pension changes, not current pensioners. The health care will be broader based, affecting current and new employees beginning July 1, 2012. The proposals on health care discussed today will not be impacted by the proposed health and pension changes. Justice Berger asked how the proposal could change the employee contribution for healthcare as she thought that was under the authority of the SEBC. Ms. Visalli responded that now in Delaware Code we have a free basic plan. It would amend that section of the Code to reflect state employees would pay five percent of the cost of the free plan and the state would pay 95 percent. That would be legislated. It would detail a cost share for all other existing health plans. Employees would pay the amount defined by the Code and those amounts will be detailed in the legislation. The plan design decisions will continue to reside with this committee. Treasurer Flowers asked if SEBC would get a briefing later or if she was just working with the lawmakers to make the changes. Ms. Visalli responded she believes the answer is yes to both. Details are still being worked on, but the proposals from the group would be legislated and a review of the proposal could be discussed later with the SEBC.

#### **FY 2012 Group Health Planning – Brenda Lakeman (handout)**

##### **Options for FY12**

Items that were discussed in prior meetings need decisions today. The following items will be reviewed:

- FY12 Budget Projections
  - Contract/Program Management Savings
  - Additional Costs
  - Options to close the Balance
- FY12 Health Care Rates

Charts for the Health Fund Projections for FY11 and FY12 were reviewed and discussed. A \$43.3M surplus is anticipated at the end of the current FY. Based on an assumption of a 7.5 percent health trend and costs to cover dependents to age 26, the projection for FY12 is that \$589.5M is needed. If rates remain as they are, the premium projections remain the same at \$576.7M. Additional revenue needed for FY12 would be \$12.8M.

There were four changes related to the Prescription benefit which SEBC approved at the last meeting. They total \$6.4M in savings, leaving a balance needed of \$6.4M. There are two additional expenses for Mental Health Parity Compliance at \$585,000 and DelaWELL Program Incentives at \$2.2M.

There had been questions about the DelaWELL Program. For the disease management administered by Alere, initial reports for July through December 2010 have been received. There was positive program participation. They have 59 percent of the targeted population enrolled in the program. Potential drivers of savings in this program are reductions in in-patient admissions and emergency room visits. Alere states that rates have fallen for condition care participants in the heart failure, COPD, diabetes and asthma programs. There are substantial declines for diabetes and asthma members. If emergency room charges

are reduced by 10 percent for one year, \$1M in savings could be achieved. The clinical performance indicators, based on nationally recognized standards of care, show there is increased adherence to medication and testing protocols. These indicate better outcomes and hopefully will further reduce in-patient admissions and emergency room visits.

**Condition Care Programs:**

- Areas for Opportunity
  - Coronary Artery Disease – Conduct targeted interventions
  - Smoking Cessation Resources – Identify resources for referral
  - Continued monitoring of participation and develop condition specific communications campaigns such as:
    - Educating asthma members on appropriate use of medication and rescue inhaler
    - Importance of annual retinal eye exam for diabetic members
- Body Mass Index (BMI) – All Engaged Active Condition Care Participants
  - 30.4% report BMI over 25 and 55.4% report BMI over 30
  - Indicates that 85.8% of Engaged Active Participants dealing with a lifestyle induced chronic condition

**Wellness Programs:**

- Performance to Date (July through December 2010)
  - State of Delaware Employee Participation – 12%
    - Similar to other Alere Government Based Clients
  - Alere Book of Business Participation - 42%
    - Metrics indicate increasing compliance
  - Early Self Reported Behavior and Risk Factor Changes\*
    - 46% Increased Level of Physical Activity
    - 58% Increased Intake of Fruits and Vegetables
    - 40% Reduced Fat in Diet
    - 41% Increased Ability to Deal with Stress
    - 42% Improved their Body Mass Index

\*Reported outcomes data from participants in Healthy Living Programs during FY11 Quarter 2

Employees' behavior/lifestyle changes were related to the following statistics:

**Recent Annual Avoidable Cost Calculations:**

- **FY 2008** – \$19,011,300 savings annually (\$2,154 annually per participant) - 8,826 Participants
- **FY 2009** – \$21,160,800 savings annually (\$2,258 annually per participant) - 10,271 Participants
- **FY 2010** – \$5,085,900 savings annually (\$2,538 annually per participant) – 2,003 Participants

It is important to have a consistent program where participants are engaged and involved as it will impact future savings. Justice Berger asked that if for FY12 are they making an assumption in terms of the incentive needs being \$2.2M based on 12,000 participants and if the same 12,000 are used under the avoidable cost calculation, couldn't the savings be more in the \$23M to \$24M range? Ms. Lakeman confirmed both. It appeared as if the incentive was added in as a cost but without any reduction in avoidable costs. Ms. Lakeman explained until those people are in the program and participate year after year; those costs cannot be assumed to be realized in FY12. It was also asked if the recent avoidable cost calculations had come true in each of the reported years. Mr. Morfe stated they could not pin point that

the DelaWELL program was directly related, but is a contributing factor to helping to keep the trend for the health fund low. He agreed with Ms. Lakeman about year after year participation being needed for the annual cost calculations. There is a lag and they hope favorable trends will emerge. It is prudent to build the incentive expenditure into the rate calculation. Ms. Lakeman reported they will be able to provide a Condition Care report, reflecting the savings realized from Disease Management program engagement in November of this year. It will be three months after the end of the program year. For the Wellness program they need year over year participation from the same participants (in FY11 and FY12) to have a true savings report and to illustrate the actual change in risk status to calculate potential avoidable costs. FY12 DelaWELL Program Recommendations were repeated from the last meeting.

Taking into account the remaining shortfall of \$6.4M, plus the other expenses, the updated balance needed for FY12 is \$9.2M. There was in depth discussion with questions and answers. Overall, if the trend continues as it is they will be able to reduce the trend from seven to six, which is \$5M. The goal is to bend the curve of the trend down and keep it down. Ms. Visalli talked about the trend and how she believes the Wellness Program definitely has an impact and is quantifiable in some degree which will benefit all the members. It is episodic in nature and hard to separate. A downward trend is expected as more people get involved in the program. From a fiscal standpoint, the Committee needs to be affirmative that they support the concept that they want people to participate and have the financial incentive because in the end the health fund will have savings that can be attributed to the Wellness program. Controller General Larson wants to understand the impact of the methodology being used. There are many factors to take into account, including extraordinary claims.

Mr. Morfe stated nationally the health care trend is more in the range of ten percent. With the Group Health Insurance Program being at seven and a half with some fluctuation, it is likely the Wellness initiatives are starting to catch up. Treasurer Flowers agreed with Controller General Larson. He wanted to know if the financial incentives were working. Ms. Lakeman reiterated that they have not had a consistent program year over year with enough of the same people participating each year to be able to measure those people and any change in costs. That is why last year they came in with a strategic plan to fund the program for several years in order to establish a baseline and to do analysis and reporting. Ms. Visalli added that without going into year two under the same parameters as year one, it's like changing the variables in your experiment. It's hard to have meaningful data. Ms. Lakeman reminded the committee that prior to the current FY, they were getting different reporting from two separate medical vendors and different reporting from the wellness vendor. Now reporting will be from one vendor for both condition care and wellness, which make analyzing changes easier.

Treasurer Flowers wanted to know if they could approve the program conditional upon having extensive reporting for evaluation purposes. Ms. Lakeman reported they will have Condition Care program reporting in November of 2011, but no two year comparisons would be available for the Wellness program until November of 2012 because they need two full years of data. Controller General Larson understood and agreed, yet had concerns about the data from the recent annual avoidable cost calculations from FY 2008 through FY 2010 and as to why those numbers were not used. Ms. Lakeman confirmed they do not have enough data from the past program years to look at participants year over year to really say the numbers are validated. Part of the surplus projected for the end of FY11 could be based on FY09, which was a very good year with high participation. There isn't enough data yet to prove that. Ms. Visalli stated the programs appear to be holding costs down. Mr. Smith asked how the savings per participant figure was derived. Ms. Lakeman explained it is comparing the people in our population with risks to people who don't have those risks and determining the difference in costs for those two populations.

Ms. Lakeman responded to a question from the Controller General at the prior meeting concerning coverage management. He wanted to know if there was duplicative savings, whether the three drugs were a subset of the estimated generic co-pay waiver campaign savings. They are not a sub-set. The generic co-pay waiver is voluntary. Solodyn and Lyrica step therapy are intended to prevent people from continuing to take those medications unless they have a doctor's verification that the medications are necessary.

Options to close the remaining FY12 healthcare balance were again reviewed:

Balance: \$ 9.2M

Utilize One Time Revenue Sources:

FY11 Medicare Part D Subsidy	\$10.5M*
FY12 Medicare Part D Subsidy	\$10.5M*
FY10 Early Retiree Reinsurance Reimbursement	\$ 1.4M
FY11 Early Retiree Reinsurance Reimbursement	\$19.0M*
Health Fund Surplus	\$43.3M*

\*Estimates

Increase Healthcare Rate Options:

FY11 Employee Rate Deferral	\$ 4.4M
1.0% Increase to Total rate (\$4.4ee/\$1.4State)	\$ 5.8M
1.5% Increase to Total rate (\$4.4ee/\$4.3 State)	\$ 8.7M

Justice Berger asked about the Prescription Rebate excess of \$9M for FY10 and was it possible to see realized rebates above the norm in other years. Ms. Lakeman noted there were two years the realized rebated exceeded the contract rebates by more than \$4M; however, one year realized rebates matched contractual rebate guarantees. That year was the first year of the Medco contract. She reiterated that the new contract accounts for increased and aggressive contractual rebate guarantees. Because of that she cautioned that she does not think they will see additional realized rebates in the \$4M to \$9M range for FY12.

Ms. Lakeman referenced the current rates as they exist now for FY11 and with the addition of the Consumer Directed Health (CDH) Gold Plan. The illustration reflected no changes in the existing rates, with the state continuing to fund a 10% increase in employee contributions as discussed by the SEBC in March 2010. The illustration assumes FY11 rates will continue through FY12 and the state continues to fund any increases that would otherwise be passed to the employee. Ms. Lakeman suggested that if the SEBC were going to use one time funds to cover the remaining FY12 balance, that they use a portion of the estimated funds related to the Early Retiree Reinsurance Program (ERRP) because they are obligated to use those funds to reduce the state and/or participant costs. Ms. Visalli recapped that when the costs go up \$13M from one year to the next and you don't change the rates, an alternative funding source must be identified. Emphasis was put on the fact they are considering not increasing the rates because there is only a minimal increase in costs, but because they are making a conscious decision not to increase the rates due to the existence of funds from other sources, it makes sense to utilize those funds. There was discussion about next year's Medicare Part D subsidy payments as another source of one time funding. Justice Berger understood the cost increases, but recalled that last year at this time there was discussion about deferring increases to employee contributions but that it should be expected to occur in FY12. If that deferral is not passed in FY12, state employees could wind up seeing a larger increase in FY13. Now we have two years in a row, assuming all agree we don't need to add to the burden of state employees and

State Employee Benefits Committee Minutes  
 March 28, 2011  
 Page 6

we can take the \$9M from one of these sources. Isn't it then possible next year that they will again say they have a minor shortfall but they can cover it? Ms. Visalli agreed it was possible. Justice Berger doesn't want them boxed into the idea that they are going to increase rates if they don't have to. Ms. Visalli stated it was possible and it was important to continue to make that clear.

A motion will be made to move Medicare Part D money to OPEB at a future meeting. Ms. Vaughn asked if Ms. Lakeman suggested using the ERRP money because it has to be spent within a defined period of time versus the other one time funds. Mr. Morfe stated the time frame is nebulous. The federal requirements include documentation of how the funds are spent and that the funds must be spent on expenses or initiatives to the benefit of the plan participants. Ms. Visalli noted that use of the ERRP funds in this manner was appropriate and easy to document. If they vote to use the ERRP money to fund the remaining balance for FY12, they propose to draw down the ERRP funds in equal monthly installments.

	<b>Total Monthly Rate</b>	<b>Funded State Share</b>	<b>Employee/ Pensioners Pays</b>
<b>First State Basic Plan</b>			
Employee	\$514.56	\$514.56	\$0.00
Employee & Spouse	\$1,064.66	\$1,064.66	\$0.00
Employee & Child(ren)	\$782.20	\$782.20	\$0.00
Family	\$1,330.86	\$1,330.86	\$0.00
<b>CDH Gold</b>			
Employee	\$532.56	\$514.56	\$18.00
Employee & Spouse	\$1,104.26	\$1,064.66	\$39.60
Employee & Child(ren)	\$813.70	\$782.20	\$31.50
Family	\$1,402.86	\$1,330.86	\$72.00
<b>Aetna HMO</b>			
Employee	\$537.22	\$514.56	\$22.66
Employee & Spouse	\$1,132.64	\$1,064.66	\$67.98
Employee & Child(ren)	\$821.80	\$782.20	\$39.60
Family	\$1,413.30	\$1,330.86	\$82.44
<b>BlueCARE® HMO</b>			
Employee	\$537.66	\$514.56	\$23.10
Employee & Spouse	\$1,136.22	\$1,064.66	\$71.56
Employee & Child(ren)	\$822.62	\$782.20	\$40.42
Family	\$1,417.62	\$1,330.86	\$86.76
<b>Comprehensive PPO Plan</b>			
Employee	\$587.46	\$514.56	\$72.90
Employee & Spouse	\$1,219.04	\$1,064.66	\$154.38
Employee & Child(ren)	\$905.38	\$782.20	\$123.18
Family	\$1,523.98	\$1,330.86	\$193.12

### **SEBAC Comments – Pat Griffin**

Ms. Griffin reiterated their prior comment that they support no increase to employees' costs in health care for FY 2012.

### **Public Comments**

Vincent McCann – AFSCME, referenced a recent article that stated health care costs have increased 150% in the last ten years. He wanted to know how that increase was accounted for. Ms. Visalli stated they will get the information to him.

Rich Phillips – President of DSEA Retired, thought there was going to be an increase. He has been following the progress of the JFC in the News Journal. He read the Governor's March 22<sup>nd</sup> letter and a letter from DSEA regarding their work on the Governor's task force. He thanked the Governor and all those involved for their hours of work. In his opinion other states wouldn't have done this. Most retirees didn't take their state jobs for the money. State workers work more with less without compensation. They choose to work here for reasons other than money, including the promise of a stable pension plan and benefits. Other states have financial trouble, including robbing pension programs to pay for other needs. After attending SEBC meetings, he appreciates that the members spend much time researching and finding ways to stretch the money.

The Governor's letter of March 22<sup>nd</sup> proposed a two percent salary increase for active employees in FY13, and he hopes an increase will be passed, as well, to retirees. He reminded the committee that the food, gas and staple prices have increased and they have not had a pension increase in over four years. They pay more for health benefits each year. For some that puts them just above, at or below poverty level. Choices between eating, paying bills or having doctor visits have to be made by them. In some situations, maybe they are forced to go without heat or apply for state assistance.

Dave Leiter, state employee – thanked them for no increases. In reading the papers and information given out about pension changes and benefit changes for new employees, he advised SEBC to look closely before voting or passing anything for pay grades 1-5. They are the bottom, they do the nasty work that needs to be done and are paying more and more all the time.

Ms. Visalli explained that the motion to finalize the health plan rates for FY12 includes the ERRP funds as the source within the surplus that will be used to fund the balance needed for FY12. She stated that the use of the ERRP funds was contingent upon receipt of the money and that if the funds did not materialize the SEBC would need to draw from one of the other sources contributing to the surplus.

Ms. Lakeman read the following as a recommendation:

THAT IT BE RESOLVED that the first \$792,000 per month (which comes up to the \$9.2M that we need) of claim payments to Blue Cross, Aetna and/or Medco will be paid with funds received from the Early Retiree Reinsurance Program to the extent permitted by federal regulations and added as per availability of those funds, and that rates for the FY12 Group Health Plans shall be equal to those represented on slide 16 of the March 28, 2011, FY12 Planning power point presentation, which are the same rates that are in existence with the added rates of the CDH Gold Plan.

State Employee Benefits Committee Minutes  
March 28, 2011  
Page 8

Justice Berger made the motion and Controller General Larson seconded. Upon unanimous voice approval, the motion passed. Note that Kelly Callahan voted on behalf of State Treasurer Flowers.

**Other Business**

None.

Ms. Visalli thanked all and reminded everyone that the next meeting would be Tuesday April 19<sup>th</sup> at 2:00 p.m. in the same room. She then asked for a motion to adjourn. Controller General Larson made the motion and Mr. Smith seconded. Upon unanimous voice approval the public meeting ended at 2:59 p.m.

Respectfully submitted,

Mary K. Thuresson  
Administrative Specialist  
Statewide Benefits Office, OMB